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## **INTRODUCTION**

Heart of West Michigan United Way (HWM) entered into contract #BA-05-41001 with the Michigan Department of Human Services (DHS) to provide a Before and After School Program (BA) for TANF eligible children in grades K-9. Under this contract HWM was to provide chemical abuse and dependency prevention/awareness services, violence prevention, anger management, character development, a health curriculum, character and leadership development, emergency preparedness, art, music, drama and computer technology programs, family oriented field trips, and mentoring.

HWM was also to provide transportation for children when necessary. The contract totaled \$649,059 and covered the period July 1, 2005 through September 30, 2006. HWM was reimbursed for their actual costs of providing the program through submission of monthly billings to DHS.

## **SCOPE**

The Office of Internal Audit performed an audit of Heart of West Michigan United Way to determine if the Agency's billings were accurate, and if the costs billed were allowable and properly supported by the accounting records and other documentation in accordance with the terms of the contract. We also reviewed the Agency's documentation that clients served were eligible for the program. Our review covered the period October 1, 2005 through September 30, 2006.

## **EXECUTIVE SUMMARY**

Based on our audit, we concluded that HWM over billed DHS \$2,584.80 in Contracted Services costs through September 30, 2006 because they billed for expenses for a subcontract that were not included in the subcontractor's budget. HWM billed a total of \$460,282.00. Our report recommends the Field Operations Administration (FOA) initiate

the process to recoup \$2,584.80 in over billed expenses from HWM for the contract year 2006.

### **HEART OF WEST MICHIGAN UNITED WAY RESPONSE**

The management of HWM has reviewed all findings and recommendations included in this report. They indicated in a letter dated December 12, 2006 that they will comply with most of the recommendations made in the report. Also, HWM requested FOA work with them to ensure that they are recording, documenting, and billing costs appropriately and to ensure that their revised budget correctly reflects the costs they expect to incur. However, they disagree with finding #2. Their reasons for disagreement follow that finding.

### **SUMMARY OF FINDINGS AND RECOMMENDATIONS**

#### **Contracted Services**

1. HWM over billed DHS \$2,584.80 for Contracted Services because they billed for items not included in their subcontract. The subcontractor included retirement, group life, and group disability in the amount billed for fringe benefits, although these three items were not included in the subcontractor's budget.

WE RECOMMEND the FOA initiate the process to recoup \$2,584.80 from HWM for over billed Contracted Services.

WE ALSO RECOMMEND that FOA work with HWM to ensure that all planned costs for the program are included in the contract budget and in HWM's subcontracts.

### Client Case File Review

2. HWM did not have client case files for each client served. Page 16 of the contract requires HWM to maintain client case files that include:

- DHS- provided forms to certify eligibility.
- Methods of service delivery.
- Other material as may be specified by the DHS.

One of HWM's subcontractors had a database of clients that included eligibility information and another subcontractor had applications completed by the parents. These two sources provided documentation that the program served eligible clients. However, HWM is required to retain that information.

WE RECOMMEND FOA ensure that HWM maintains case files for all clients that include the necessary forms and information.

### HWM Response

HWM proposed that they be allowed to keep a copy of a database of eligible student information, instead of case files. If that is not acceptable, they request FOA work with them to find a cost effective solution.

### Proper Classification of Expenses

3. HWM did not have good internal control over the payments to subcontractors. We found that one of its subcontractors included a total of \$20,079.82 in charges for FICA, Workers' Compensation, and Unemployment Insurance in the salaries line item. Transferring these costs to the fringe benefits line item does not result in an over expenditure of the subcontract budget. Therefore no dollar adjustment is necessary.

WE RECOMMEND that FOA work with HWM to ensure that subcontracted costs are appropriately billed.

#### AmeriCorps Workers

4. One of HWM's subcontractors billed for Living Allowances for AmeriCorps workers under the Salaries line item of their subcontract, although these costs were not included in their subcontract budget. The duties performed by these workers were very similar to those performed by activity leaders and the amount charged did not exceed the subcontract budget amount for activity leaders. Therefore, we are not recommending a dollar adjustment. However, the subcontract should specifically include AmeriCorps workers if they are to be used in providing services for this program.

WE RECOMMEND that FOA work with HWM to ensure that planned costs are accurately identified in their subcontract budgets.

#### Indirect Charges

5. HWM billed DHS \$14,700 under the Miscellaneous Line Item for costs they considered to be indirect. The costs billed were estimated costs for salaries of the finance staff and the project manager and president, estimated costs for space, telephone, supplies and equipment, and the estimated cost of their audit. Per the contract budget, the Miscellaneous Line Item is to be used to bill for costs that are not chargeable to other line items. Salaries, occupancy, telephone and equipment are all chargeable to other line items, and should not be included in the Miscellaneous Line Item. In addition, all costs must be allocated by a method that ensures that costs are accurately charged to the benefiting programs. All charges appeared to be

reasonable. Therefore, we are not recommending a dollar adjustment for the indirect charges for this contract period. However, HWM needs to implement proper documentation procedures to ensure costs billed comply with the requirements of the Federal Office of Management and Budget (OMB) Circular A-122 and their contract with DHS.

WE RECOMMEND that FOA ensure that HWM implements proper procedures for documenting costs and billing DHS appropriate amounts under the correct line items for future contracts.

#### Subcontract Language

6. HWM's subcontracts did not include language required by the contract with DHS (i.e. language pertaining to performance).

Also HWM did not obtain prior written approval for any of its subcontracts. The contract states on page 24, "The Contractor shall not assign this Agreement or enter into subcontracts to this Agreement with additional parties without obtaining prior written approval of the DHS."

WE RECOMMEND FOA ensure that HWM prepares subcontracts using language required by the contract.

WE FURTHER RECOMMEND FOA monitor to ensure that all HWM subcontracts are approved by DHS.